Company Registration No. 01928053

SENIOR UK LIMITED

Annual Report and Financial Statements

For the year ended 31 December 2019

SENIOR UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

CORPORATE INFORMATION

DIRECTORS

M Sheppard
D H Squires
A J Bodenham
B J J Foyle

SECRETARY

A J Bodenham

REGISTERED OFFICE

59/61 High Street
Rickmansworth
Hertfordshire
WD3 1RH

BANKER

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

AUDITOR

KPMG LLP
15 Canada Square
London
E14 5GL

STRATEGIC REPORT

The Directors present their Annual report and the audited Financial Statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activities of Senior UK Limited, the Company, are the manufacture of precision machined parts, flexible tubing, composites and ducting for the aerospace and automotive industries.

BUSINESS REVIEW

Revenue for the year decreased by 2.0% to £144,405,000 (2018 - £147,422,000) and Other Operating Expenses increased in the year to £46,347,000 (2018 - £21,290,000), including a charge of £25,700,000 (2018 - £2,651,000) related to impairment of a subsidiary. An operating loss was incurred in 2019 of £14,542,000 (2018 – operating profit of £10,751,000). No dividend was paid in the year (2018 - £nil).

The Balance Sheet on page 10 shows the Company's net asset position at the year end of £63,720,000 (2018 - £74,002,000), a decrease of £10,282,000 year on year primarily due to the retained profit for the year, offset against an impairment charge of £25,700,000 relating to the investment held in Lymington Precision Engineering (LPE) Limited (See Note 13).

FUTURE PROSPECTS

The Directors expect the Company to deliver a satisfactory financial performance in 2020. For further details, see the Annual Report and Accounts of Senior plc, the Company's ultimate parent.

KEY PERFORMANCE INDICATORS

The Company is ultimately owned by Senior plc which manages its operations on a divisional basis and sets appropriate key performance indicators for each division. For this reason, the Directors believe that further key performance indicators for the Company, other than revenue, operating profit and net assets set out above, are not necessary or appropriate for an understanding of the development, performance or position of the business. The Company has four operating units in Senior's Aerospace division and one in the Flexonics division and the performance of these divisions is discussed in the Annual Report and Accounts for Senior plc (the Group), which does not form part of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Company's future performance and cause actual results to differ materially from expected or historical results.

The Company operates in competitive market sectors and competitive pressure is therefore a continuing risk for the business. In addition, the aerospace and automotive markets within which the Company operates can also fluctuate, subjecting the business to market risks. The Company also faces risks on pandemics, manufacturing performance, climate change, foreign exchange exposure, credit risk, liquidity risk and defined benefit pension plan funding risks.

The Company anticipates that any direct or indirect impact from Brexit will be limited and not significant.

The above risks, which are the same, or similar, to those faced by Senior plc, the Company's ultimate parent Company that prepares consolidated accounts, are discussed in detail within the Annual Report and Accounts for Senior plc, which does not form part of this report.

FINANCIAL RISK MANAGEMENT

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to hedge these exposures and the use of these contracts is governed by Senior plc's treasury policy.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings. The Company has no significant concentration of credit risk, with exposure spread over a number of customers and counterparties.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company is able to use debt finance provided by other Group companies, predominantly its immediate parent Company, Senior Engineering Investments Limited (SEIL).

SECTION 172 (1) STATEMENT

The Company is a subsidiary of Senior plc, the Company's ultimate parent. Senior plc's section 172 statement applies to the Company to the extent it relates to the Company's activities. Common policies and practices are applied throughout the Group via divisional management teams and a common governance framework. The following disclosure describes how the Directors of the Company have had regard to the matters set out in section 172(1a) to (f) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Further details of the Group approach to each stakeholder are provided in Senior plc's section 172 statement which can be found on page 20 of Senior plc's Annual Report and Accounts 2019.

The Directors continue to have regard to the interests of the Company's employees and other stakeholders when making decisions and are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act.

The long term strategic direction of the Company is set in accordance with the strategic priorities of the Group, particularly to focus on outgrowing our end markets and introduce a high performance operating system. Since 2015, we have achieved a number of goals to underpin this strategy such as opening a Thermoplastic Composites Development centre in the UK, utilising group wide key performance indicators to focus on performance, growth, operational excellence and talent development, selling the BWT Ilkeston facility in 2017 to focus on opportunities in the Company's core activities and successful rollout of "Learn" a Learning Management System.

The Company engages with six key stakeholders; its parent, suppliers, employees, communities and other Group companies. The Company's parent is SEIL, which provides debt finance to the Company to ensure sufficient funds are available for ongoing operations and future developments. Dialogue between the two Companies is facilitated by having some of the same Directors, which ensures Strategic direction from the Group is aligned. Company board meetings and resolutions ensure that funding relationships with other Group companies are aligned, which helps to manage foreign exchange risk, as described in the finance risk management section above.

The Strategic Report was approved by the Board of Directors and signed on behalf of the Board.

B J J Foyle

Director

31 July 2020

DIRECTORS' REPORT

The Directors' present their report for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The profit and loss account reconciliation for the year was as follows:

	2019 £'000	2018 £'000
Profit and loss account, 1 January	80,786	68,304
(Loss)/Profit for the financial year	(14,907)	12,480
Deferred tax on share options	(7)	2
	65,872	80,786

DIRECTORS

The Directors who served during the year and to the date of signing this report were as follows:

M Sheppard
D H Squires
A J Bodenham
B J J Foyle

DIRECTORS INDEMNITIES

Qualifying third party indemnity provisions for the benefit of the Directors were renewed by Senior plc, the ultimate parent company, during the year and remain in force at the date of this report

GOING CONCERN BASIS

Due to a large outstanding balance owed to Group undertakings, as stated in note 18, there is a risk that current liabilities could be recalled and the Company is unable to obtain an alternative source of funding. Of the total amount of loans owed to Group undertakings of £28,536,000 (2018- £38,753,000), the amount owed to the Company's immediate parent company, Senior Engineering Investments limited of £23,839,000 (2018- £34,126,000) represents the largest portion of this outstanding balance.

The Company's financial position remains strong. This, combined with the financial support of Senior plc, give the Directors the reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has continued to adopt the going concern basis in preparing the Company's Financial Statements.

RESEARCH AND DESIGN

In 2019 expenditure on research and design was £6,239,000 (2018 - £3,677,000). Expenditure was incurred mainly on funded and unfunded work, which relates to designing and engineering products in accordance with individual customer specifications and investigating specific manufacturing processes for their production. The Company also incurs costs on general manufacturing improvements which are similarly expensed. Unfunded costs in the year have been expensed, consistent with the prior year, as they did not meet the strict criteria required for capitalisation.

POLITICAL CONTRIBUTIONS

The Company did not make any Political donations in either 2019 or 2018.

EXISTENCE OF BRANCHES OUTSIDE THE UK

The Company has a branch, as defined in section 1046(3) of the Companies Act 2006, in South Africa.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a Director at the date of approval of this report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(2) the Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board of Directors and signed on behalf of the Board

A J Bodenham

Secretary

31 July 2020

Registered Office:
59/61 High Street
Rickmansworth
Hertfordshire
WD3 1RH

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SENIOR UK LIMITED

Opinion

We have audited the Financial Statements of Senior UK Limited ("the Company") for the year ended 31 December 2019 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 3.

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Financial Statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the Financial Statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Strategic report and Directors' report

The Directors are responsible for the strategic report and the Directors' report. Our opinion on the Financial Statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the Financial Statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SENIOR UK LIMITED (Continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the Financial Statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

R Brent

Robert Brent (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square
London
E14 5GL
31 July 2020

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2019

	Note	2019 £'000	2018 £'000
REVENUE	4	144,405	147,422
Cost of sales		(112,600)	(115,381)
GROSS PROFIT		31,805	32,041
Other operating expenses	5	(46,347)	(21,290)
OPERATING (LOSS)/PROFIT	6	(14,542)	10,751
Income from group undertakings		-	2,651
Finance income	8	13	36
Finance expenses	9	(777)	(772)
(LOSS)/PROFIT BEFORE TAXATION		(15,306)	12,666
Taxation	10	399	(186)
(LOSS)/PROFIT FOR THE YEAR		(14,907)	12,480

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019

	2019 £'000	2018 £'000
(Loss)/Profit for the year	(14,907)	12,480
Items that may be reclassified subsequently to profit or loss:		
Gains/(Losses) on foreign exchange contracts -cash flow hedges	5,879	(5,692)
Income tax (charge)/credit on foreign exchange contracts -cash flow hedges	(1,171)	1,082
Exchange losses differences on translation of foreign operations	(76)	(343)
Other comprehensive income/(expense) for the year	4,632	(4,953)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(10,275)	7,527

BALANCE SHEET
31 December 2019

	Note	2019 £'000	2018 £'000
NON-CURRENT ASSETS			
Goodwill	11	28,868	28,868
Other intangible assets	12	399	541
Investments	13	18,916	44,616
Property, plant and equipment	14	27,554	19,590
Deferred tax asset	15	3,135	3,911
		78,872	97,526
CURRENT ASSETS			
Inventories	16	17,395	18,239
Trade and other receivables	17	28,922	32,297
Cash and bank balances		1,962	-
		48,279	50,536
CURRENT LIABILITIES			
Bank overdrafts		-	(1,315)
Trade and other payables and provisions	18	(54,970)	(72,745)
Lease liabilities	22	(34)	-
NET CURRENT LIABILITIES		(6,725)	(23,524)
NON-CURRENT LIABILITIES			
Lease liabilities	22	(8,427)	-
NET ASSETS		63,720	74,002
CAPITAL AND RESERVES			
Issued share capital	19	2,000	2,000
Hedging and translation reserve	19	(4,152)	(8,784)
Profit and loss account		65,872	80,786
EQUITY		63,720	74,002

The accompanying notes form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors and authorised for issue on 31 July 2020.

Signed on behalf of the Board of Directors

Bindi JJ Foyle

B J J Foyle

Director

Company Registration No. 01928053

STATEMENT OF CHANGES IN EQUITY
31 December 2019

	Note	Issued share capital £'000	Hedging and translation reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2018		2,000	(3,831)	68,304	66,473
Profit for the year		-	-	12,480	12,480
Other comprehensive income for the year		-	(4,953)	-	(4,953)
Total comprehensive income for the year		-	(4,953)	12,480	7,527
Tax relating to share based payments	10	-	-	2	2
Balance at 31 December 2018		2,000	(8,784)	80,786	74,002
Profit for the year		-	-	(14,907)	(14,907)
Other comprehensive income for the year		-	4,632	-	4,632
Total comprehensive income for the year		-	4,632	(14,907)	(10,275)
Tax relating to share based payments	10	-	-	(7)	(7)
Balance at 31 December 2019		2,000	(4,152)	65,872	63,720

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

1. GENERAL INFORMATION

Senior UK Limited, the Company, manufactures precision machined parts, flexible tubing, composites and ducting for the aerospace and automotive industries. The Company is incorporated in the United Kingdom under the Companies Act 2006. The registered office of the Company is stated on page 1. These Financial Statements are presented in Pound Sterling being the currency of the primary economic environment in which the Company operates. As permitted by the Companies Act 2006, the Company has not prepared consolidated Financial Statements as it is included in the Annual Report and Accounts for Senior plc, which is registered in England and Wales and has prepared consolidated accounts, which are publicly available.

2. PREPARATION OF FINANCIAL STATEMENTS

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the Company.
- Disclosures of related party transactions with Senior plc Group entities, that are wholly owned subsidiaries, as the Company is a wholly owned subsidiary of Senior plc, which produces consolidated accounts that are publicly available. There were no other related party transactions in either 2019 or 2018.

As the consolidated Financial Statements of Senior plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets; and
- Certain disclosures required by IFRS 16 Leases.

Where relevant, the disclosures exemptions have been given in the Group accounts of Senior plc which are publicly available.

3. ACCOUNTING POLICIES

The Financial Statements have been prepared on the historical cost basis except for liabilities for equity settled share-based payments, in accordance with the Company's accounting policies approved by the Board.

Critical accounting judgments

IAS requires disclosure of the judgments management makes when applying its significant accounting policies and that have the most significant effect on amounts that are recognised in the Company's Financial Statements. In the course of preparing the Financial Statements, no significant critical judgments have been made when applying the Company's accounting policies, other than those involving estimations, which are dealt with separately below. Management makes other judgments in the normal course of conducting business, such as those in relation to contractual and legal matters.

Leases

Where a lease includes the option for an extension to the lease term, Management makes a judgment as to whether they are reasonably certain the option will be taken. This will take into account the length of time remaining before the option is exercisable, current and forecasted plans for utilising the asset and the level and type of planned future capital investment. As at 31 December 2019, these extension options have an average remaining lease term of five years. These judgments are reassessed at each reporting period, which could result in a recalculation of the lease liability and a material adjustment to the associated balances.

Key sources of estimation and uncertainty

Management has considered the estimation applied to inventory and concluded that there is not a significant risk of material adjustment arising over the next financial year. Management assesses the carrying value of inventory to ensure that it is held at lower of cost and net realisable value. Where necessary, Management makes an estimate to write down inventory to its net realisable value. The Company held a net inventory balance at the year-end of £17,395,000 (2018 – £18,239,000). In determining an estimate of net realisable value, Management has made assumptions in respect of the durability, quality, specificity and order cover, which provide some protection against adverse market conditions, and competitor product development and pricing activity. Inventory held is typically built on a demand basis and is customer specific.

Changes in accounting policies

At the date of authorisation of these Financial Statements, effective for annual periods beginning 1 January 2019, IFRS 16 Leases replaced IAS 17 Leases and requires lessees to recognise Right-of-use assets and Lease liabilities for all leases (be they operating or financing in classification under IAS 17), with optional application for those leases with a term of 12 months or less or where the underlying asset is low value.

The Company has performed the required assessment of its cumulative adjustment on transition to IFRS 16 with effect from 1 January 2019 and applied the standard from the transitional date using the modified retrospective approach and not restating comparatives. As at 1 January 2019, the Company's audited right-of-use assets were £9,357,000, lease liabilities were £9,253,000 and working capital decreased by £104,000 in total. A reconciliation between the IAS 17 operating lease commitments disclosed in the Financial Statements of the Company as at 31 December 2018 and Lease liabilities recognised on 1 January 2019 is shown in Note 22.

There are no other material new standards, amendments to standards or interpretations which are effective for the year ended 31 December 2019.

Going concern

Due to a large outstanding balance owed to Group undertakings, as stated in note 18, the Company's main risk in respect of going concern is the net current liabilities held on the Balance Sheet. Of the total amount of loans owed to Group undertakings of £28,536,000 (2018 - £38,753,000), the amount owed to the Company's immediate parent company, Senior Engineering Investments limited of £23,839,000 (2018 - £34,126,000) represents the largest portion of this outstanding balance. The Company's financial position remains strong. This, combined with the letter of financial support provided by Senior plc, gives the Directors the reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has continued to adopt the going concern basis in preparing the Company's Financial Statements. The Company's financial position, future prospects and uncertainties are described in the Strategic Report and Directors' Report.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

3. ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill acquired in a business combination is measured as the fair value of the consideration transferred in excess of the fair value of the net assets acquired and is deemed to have an indefinite life. Costs of acquisition are charged to the Profit and Loss Account in the period in which they are incurred.

Goodwill is allocated, at aquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. CGUs to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the CGU may be impaired. Indicators of impairment are reviewed at the Balance Sheet date. The recoverable amount of the CGU is determined by applying a pre-tax discount rate to its pre-tax future cash flows. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. Any impairment is recognised immediately through the Profit and Loss Account and is not subsequently reversed.

On disposal of a subsidiary of part thereof, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

Other intangible assets

Other intangible assets include computer software and intangible assets acquired as part of a business combination.

The cost of acquiring computer software (including associated implementation and development costs where applicable) is classified as an intangible asset. Costs associated with maintaining computer software programs are recognised as an expense as incurred. Capitalised computer software is amortised over its estimated useful life of between three and five years on a straight-line basis, and is stated at cost less accumulated amortisation and impairment losses.

Intangible assets acquired as part of a business combination principally comprise customer relationships, contracts and trade names. They are shown at fair value at the date of acquisition less accumulated amortisation at the rates of between three and five years on a straight-line basis.

Investments

Investments are held at cost less impairment. The carrying value of investments is reviewed for impairment when there is an indication that the investment might be impaired. Any provision resulting from an impairment review is charged to the profit and loss account in the year concerned.

Property, plant and equipment

Property, plant and equipment include land, buildings, plant and equipment. Land and buildings are stated in the Balance Sheet at their historical cost, or at modified historical cost. Plant and equipment are stated at cost less accumulated depreciation and any recognised impairment.

Depreciation is charged to write off the cost of the asset less residual value on a straight line basis, over the estimated useful life of the asset, from the time an asset becomes available for its intended use. Annual depreciation rates are as follows:

Freehold land	Nil
Freehold buildings	2%
Right-of-use land and buildings	on the same basis as owned assets or, where shorter, over the lease term
Leasehold building improvements	on the same basis as owned assets or, where shorter, over the lease term
Plant and equipment	5% - 33%
Right-of-use plant and equipment	on the same basis as owned assets or, where shorter, over the lease term

The Company primarily leases land and buildings for manufacturing use. The lease term, including options to extend which are reasonably certain, typically range from one to eleven years. The Group also leases plant and equipment, including office equipment, vehicles and manufacturing equipment, with lease terms typically ranging from one to four years.

Residual value is calculated at prices prevailing at the date of acquisition. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset at disposal and is recognised in the Profit and Loss Account.

3. ACCOUNTING POLICIES (Continued)

Inventory

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are based on:

Raw materials	purchase cost on a first in, first out basis, including transport costs
Work in progress and finished goods	cost of direct materials and labour, plus an appropriate proportion of manufacturing overheads based on normal levels of activity

Net realisable value represents the estimated selling price less the estimated costs of completion and the costs to be incurred in marketing, selling and distribution.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is provided in full at the anticipated tax rates on timing differences arising from the different treatment of items for accounting and taxation purposes.

A deferred tax asset is regarded as recoverable and therefore recognised only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. The Company has elected not to discount the deferred tax assets and liabilities.

Leasing

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The assessment of control includes whether the Company has a right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use and the right to direct the use of the asset. As a lessee, the Company recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjustment for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle or restore the underlying asset, less any lease incentives received.

Lease payments comprise fixed payments and variable lease payments based on an index or rate. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The lease term includes optional extensions or terminations which are reasonably certain to be exercised by the Company. These optional terms are reassessed periodically. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property, plant and equipment.

Periodically the right-of-use asset is reduced for impairment, if necessary, as well as re-measurements of the lease liability. The lease liability is measured at amortised cost using the effective interest method, which is initially equal to the present value of lease payments that are not paid at the commencement date, discounted using an incremental borrowing rate determined on a lease portfolio basis. The lease liability is re-measured either as a modification or reassessment. Modification occurs where there is a change in terms, such as rental payments, which did not form part of the original terms of the contract. In this case, the lease liability is re-measured using the revised terms and a revised incremental borrowing rate at the modification date. Reassessment occurs where there are changes within the scope of the original terms of the contract, such as rental payments changes with reference to an index. For reassessment changes, the lease liability is re-measured in the same way as for a modification, except for the incremental borrowing rate, which is not changed from the original commencement date of the contract.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases which have a lease term of 12 months or less and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

3. ACCOUNTING POLICIES (Continued)

Pension costs

The Company participates in the defined benefit and contribution pension plans of the Group through the Senior plc Pension Plan and Senior plc Group Flexible Retirement Plan respectively. The Senior plc Pension Plan was closed to future benefit accrual at the end of 6 April 2014.

For the defined benefit pension scheme, Senior plc makes contributions on the advice of actuaries to discharge in full the Company's pension obligations arising in the year. This is a group scheme, since all the participating employers are under common control. As such the liability and assets are allocated to Senior plc in accordance with Group policy. Accordingly, the amount charged to the profit and loss account is the contribution payable in the year, and any variations from this cost are reflected in the accounts of Senior plc, which do not form part of this report. For the defined contribution scheme, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year.

Internally generated intangible assets – development expenditure

An intangible asset arising from unfunded development work shall be recognised if the following can be demonstrated:

i) the asset can be separately identified.

ii) it is probable that the asset created will generate future economic benefits.

iii) the development cost of the asset can be measured reliably during its development.

iv) it is technically feasible to complete the asset so that it will be available for use or sale.

v) there is intention to complete the asset and use or sell it.

vi) the Company has ability to use or sell the asset.

vii) the Company has availability of adequate technical, financial and other resources to complete the development work and to use or sell the asset.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives.

Costs incurred in relation to funded development work are accumulated in inventory and are recognised when the related billings are made. Any amounts held in inventory are subject to normal inventory valuation principles.

Expenditure on research, design and other development activities, that do not meet the capitalisation criteria above, is recognised as an expense in the period in which it is incurred.

Share based payments

Senior plc issues equity settled share based payments to certain employees of Group companies. Equity settled share based payments are measured at fair value (excluding the effect of non market based vesting conditions) at the date of grant. The fair value as determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest and adjusted for the effect of non market based vesting conditions.

Fair value is measured by use of both a Black Scholes model and a binomial model for the share option plans and a binomial model for the shares awarded under the Senior plc 2005 Long Term Incentive Plan.

The liability to Senior plc in respect of equity-settled amounts is included in current and non-current liabilities as appropriate.

3. ACCOUNTING POLICIES (Continued)

Revenue

The Company predominantly has one revenue stream relating to engineered components or systems (products), which are customer specific, with a secondary revenue stream of funded development revenue. Both streams have identifiable customer contracts and pricing specific performance obligations.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. Revenue is recognised net of discounts, VAT and other sales related taxes. The determination of the transaction price is based upon pricing specified in the customer contract i.e. a price per unit.

Revenue is recognised as the identified performance obligations are satisfied. The performance obligation for goods is a specific point in time when the customer obtains control, which is upon delivery or when available for collection. Allocation of transaction price to performance obligations is given in the contract i.e. a unit delivered or available for collection.

The performance obligation for development revenue is a specific point in time when the customer obtains control of the output, for example a first article good, which is the acceptance milestone specified in the customer contract.

Dividend income from investments is recognised when the shareholders' legal rights to receive payment have been established.

Foreign currency

Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account, except as noted below for derivative financial instruments.

Assets, liabilities, and results of foreign operations are translated at the rate ruling at the balance sheet date. Exchange differences arising are dealt with through the foreign currency translation reserve.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by loss allowance. The Company has elected to measure loss allowance for trade receivables at an amount equal to the lifetime expected credit losses (ECLs), which are based on quantitative and qualitative credit risk assessments, using historical and forward looking information. Changes in the carrying amounts of the loss allowance are recognised in the Profit and Loss Account.

Trade receivables in default are considered uncollectible and are written off against the loss allowance. The Company considers a trade receivable to be in default when the customer is experiencing significant financial difficulties, bankruptcy, financial reorganisation or is in default or delinquent in paying its credit obligations to the Company in full. Subsequent recoveries of amounts previously written off are credited against the loss allowance. Trade receivables are derecognised when factored, without recourse, through third party financial institutions (the Factors).

3. ACCOUNTING POLICIES (Continued)

Derivative financial instruments

Derivative financial instruments are used to manage exposure to foreign exchange risk. The Company does not hold or issue derivative financial instruments for speculative purposes. The Company designates certain hedging instruments in respect of foreign currency risk as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents, both at hedge inception and on an ongoing basis, whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. For the Company's cash flow hedges of highly probable forecast transactions in foreign currencies, the hedged risk is always considered to be 1:1. If the underlying exposure changes over time, either due to commercial factors or timing differences, the hedging instruments will be rebalanced to ensure that the hedge ratio of 1:1 is maintained.

Changes in the fair value of derivative financial instruments that are designated and are effective as a cash flow hedge are recognised directly in equity and the ineffective portion is recognised immediately in the Profit and Loss Account. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the Profit and Loss Account in the same period in which the hedged item affects profit or loss.

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the Profit and Loss Account. Gains or losses from remeasuring the derivative are also recognised in the Profit and Loss Account. If the hedge is effective, these entries will offset in the Profit and Loss Account. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Profit and Loss Account as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Profit and Loss Account for the period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

4. REVENUE

The Company's revenue was wholly attributable to the Company's principal activities.

The detailed analysis of destination revenue by geographical area is given below:

	2019 £'000	2018 £'000
UK	64,045	73,783
Rest of Europe	34,693	33,367
USA	16,468	16,600
Rest of the World	29,199	23,672
	144,405	147,422

5. OTHER OPERATING EXPENSES

	2019 £'000	2018 £'000
Distribution costs	3,732	6,669
Administrative expenses	42,615	14,621
	46,347	21,290

6. OPERATING PROFIT

The following has been included in operating profit:

	2019 £'000	2018 £'000
Depreciation of property, plant and equipment	4,355	2,713
Amortisation of intangible assets	306	310
Operating lease rentals for plant and machinery	-	158
Operating lease rentals for land and buildings	-	973
Research and design expenditure	6,239	3,677
Cost of inventories recognised as expense	112,600	115,381
Staff costs (note 7)	45,456	42,597
Charge/(release) for impairment for doubtful receivables	112	(33)
(Gain)/loss on disposal of fixed assets	(4)	23
Net foreign exchange losses	3,825	2,204
Net royalties paid from other group undertakings	304	284
Impairment of subsidiary (Note 13)	25,700	2,651
Restructuring provision for impairment of property, plant and equipment and inventories	599	-
Restructuring staff and other costs	1,112	-
Charitable donations	18	-
Fees paid to auditor:		
Audit	75	71
Tax services	-	-
Other services	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

7. STAFF COSTS

M Sheppard, D H Squires, A J Bodenham and B Foyle did not receive any emoluments from Senior UK Limited during either 2019 or 2018 and emoluments of D H Squires and B Foyle are reported in the accounts of Senior plc. None of the Directors, except M Sheppard, were voluntarily contributory members of group defined contribution pension schemes (2018 - None except M Sheppard). The Directors are not involved with the management of the affairs of the Company or any such subsidiary undertaking and have therefore not performed any material qualifying services in the year as per SI2008/410 Schedule 5.

	2019 No.	2018 No.
Average number of persons employed		
Production	1,069	1,047
Distribution	18	13
Sales	103	103
Administration	101	101
	1,291	1,264

	2019 £'000	2018 £'000
Staff costs during the year		
Wages and salaries	37,719	36,190
Termination benefits	1,021	-
Social security costs	3,511	3,494
Share based payments	221	201
Pension costs – defined contributions	2,984	2,712
	45,456	42,597

The Company also incurred other employee expenses during the year of £399,000 (2018 - £541,000)

8. FINANCE INCOME

	2019 £'000	2018 £'000
Bank interest	13	36

9. FINANCE EXPENSES

	2019 £'000	2018 £'000
Inter Group loan interest	589	762
Interest on lease liabilities	171	-
Other	17	10
	777	772

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

10. TAXATION

(i) Analysis of tax on ordinary activities

	2019 £'000	2018 £'000
Corporation tax:		
UK corporation tax charge	-	848
Adjustments in respect of prior years	3	(1,615)
Total corporation tax charge/(credit)	3	(767)
Deferred tax:		
Current year	(420)	453
Adjustment in respect of prior years	18	500
Total deferred tax (credit)/charge	(402)	953
Tax on profit on ordinary activities	(399)	186

(ii) The following table reconciles the tax charge calculated at the UK statutory rate on the profit before tax with the actual tax charge for the year.

	2019 £'000	2018 £'000
(Loss)/Profit on ordinary activities before tax	(15,306)	12,666
Expected tax (credit)/charge at 19.00% (2018 – 19.00%)	(2,908)	2,407
Non tax deductible investment impairment	4,883	504
Group relief received for nil consideration	(2,540)	(1,032)
Other permanent items	145	(578)
Adjustments in respect of prior years	21	(1,115)
Tax (credit)/charge for the year	(399)	186

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31 December 2019 has been calculated based on this rate. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This will increase the Company's future current tax charge accordingly and increase the deferred tax asset by £320,000.

(iii) In addition to the amounts charged to the profit and loss account, the following amounts relating to deferred tax have been recognised in Other Comprehensive Income:

Items that may be reclassified subsequently to profit or loss:	2019 £'000	2018 £'000
Tax (charge)/credit in respect of cash flow hedge gains/losses arising during the year	(1,171)	1,082

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

10. TAXATION (Continued)

(iv) In addition to the amounts charged to the Profit and Loss Account and Other Comprehensive Income, the following amounts relating to tax have been recognised directly in Equity:

	2019 £'000	2018 £'000
Current tax:		
Excess tax deductions related to share-based payments on exercised options	-	-
Deferred tax:		
Changes in estimated excess tax deductions related to share-based payments	(7)	2
Total tax (charge)/credit recognised directly in Equity	(7)	2

v) Deferred taxation

	2019 £'000	2018 £'000
At 1 January	3,911	3,780
(Credit)/Charge to the Profit and Loss account	402	(953)
(Charge)/Credit to Other Comprehensive Income	(1,171)	1,082
(Charge)/Credit directly to Equity	(7)	2
At 31 December	3,135	3,911

Deferred tax assets recognised on the balance sheet

	2019 £'000	2018 £'000
Tax effect of timing differences due to:		
Depreciation in excess of capital allowances	2,669	2,270
Short term timing differences	466	1,641
	3,135	3,911

11. GOODWILL

	2019 £'000	2018 £'000
Cost and net book value		
At 1 January and 31 December	28,868	28,868

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

12. OTHER INTANGIBLE ASSETS

	2019 £'000	2018 £'000
Cost		
At 1 January	2,657	2,466
Additions	164	236
Disposals	(160)	(45)
At 31 December	2,661	2,657
Amortisation		
At 1 January	2,116	1,851
Charge for the year	306	310
Disposals	(160)	(45)
At 31 December	2,262	2,116
Net book value		
At 31 December	399	541

13. INVESTMENTS

	2019 £'000	2018 £'000
Cost		
At 1 January	44,616	47,267
Impairment	(25,700)	(2,651)
At 31 December	18,916	44,616

In 2019, the impairment of £25,700,000 relates to the investment in Lymington Precision Engineering (LPE) Limited. In 2018, the impairment of £2,651,000 relates to the investment in Thermal Engineering Holding Limited.

The subsidiary undertakings of the Company, all of which are directly wholly-owned and registered in England and Wales are as follows:

Name	**Nature of trade**
Thermal Engineering Holding Limited	Non-trading company (liquidated 12 February 2019)
Lymington Precision Engineering (LPE) Limited	Non-trading company

The shares held in Thermal Engineering Holding Limited and Lymington Precision Engineering (LPE) Limited are ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land and buildings £'000	Leasehold building improve-ments £'000	Plant and equipment £'000	Right-of-use land and buildings £'000	Right-of-use plant and equipment £'000	Total £'000
Cost						
At 1 January 2019	6,601	91	31,015	-	-	37,707
Reclassification	-	-	(23)	-	23	-
IFRS 16 Opening adjustment	-	-	-	9,097	260	9,357
Lease modification	-	-	-	85	(38)	47
Additions	-	3	3,133	-	220	3,356
Disposals	-	-	(2,421)	-	(11)	(2,432)
At 31 December 2019	6,601	94	31,704	9,182	454	48,035
Depreciation						
At 1 January 2019	1,036	60	17,021	-	-	18,117
Reclassification	-	-	(15)	-	15	-
Charge for the year	146	5	3072	1,019	113	4,355
Disposals	-	-	(1,980)	-	(11)	(1,991)
At 31 December 2019	1,182	65	18,098	1,019	117	20,481
Net book value	5,419	29	13,606			
At 31 December 2019				8,163	337	27,554
At 31 December 2018	5,565	31	13,994	-	-	19,590

At 31 December 2019, the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £422,000 (2018 – £178,000).

15. DEFERRED TAX ASSET

	2019 £'000	2018 £'000
Deferred tax (note 10)	3,135	3,911

16. INVENTORIES

	2019 £'000	2018 £'000
Raw materials and consumables	6,079	6,684
Work-in-progress	6,319	6,839
Finished goods and goods for resale	4,997	4,716
	17,395	18,239

Write downs of inventory recognised as an expense in the Profit and Loss Account in 2019 was £817,000 (2018 - £439,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

17. TRADE AND OTHER RECEIVABLES

	2019 £'000	2018 £'000
Trade receivables	24,426	29,649
Amounts owed by Group undertakings	269	330
Prepayments and accrued income	2,038	1,780
Foreign currency hedge contracts	1,646	170
Value added tax	543	368
	28,922	32,297

Amounts owed by Group undertakings are made up of various trading balances.

18. TRADE AND OTHER PAYABLES AND PROVISIONS

	2019 £'000	2018 £'000
Loans from group undertakings	28,536	38,753
Trade payables	10,556	12,559
Trading amounts owed to Group undertakings	3,256	3,487
Corporation tax	97	470
Other taxation and social security	2,719	2,964
Foreign exchange contracts –cash flow hedges	4,537	9,495
Accruals and deferred income	3,712	4,564
Provisions – Warranty and Other	1,557	453
	54,970	72,745

Loans to group undertakings

	2019 £'000	2018 £'000
Loans to Group undertakings:		
Senior Engineering Investments Limited	23,839	34,126
Lymington Precision Engineering (LPE) Limited	4,697	4,627
	28,536	38,753

On 31 October 2014 the Master Agreement for borrowing advances and investing surplus cash between Senior Engineering Investments Limited and the Company was enacted. The Master Agreement allows the netting off of outstanding amounts owed by the Company to Senior Engineering Investments Limited against outstanding amounts owed by Senior Engineering Investments Limited to the Company. The net lending between the Company and Senior Engineering Investments Limited should not at any time exceed £50,000,000 (amended to £100,000,000 in the Master Agreement on 31 March 2015). The loan balance is payable on demand. The net amount owed by the Company is £23,839,000 (2018 - £34,126,000).

On 18 May 2015 the Master Agreement for borrowing advances and investing surplus cash between the Company and Lymington Precision Engineering (LPE) Limited was enacted. The Master Agreement allows the netting off of outstanding amounts owed to the Company by Lymington Precision Engineering (LPE) Limited against outstanding amounts owed by the Company to Lymington Precision Engineering (LPE) Limited. The net borrowing between the Company and Lymington Precision Engineering (LPE) Limited should not at any time exceed £10,000,000. The loan balance is payable on demand. The net amount owed by the Company is £4,697,000 (2018 - £4,627,000).

For both loans, interest is calculated on the aggregate of the applicable margin and the 1-month LIBOR. The applicable margin is the percentage rate of the margin defined in Senior plc's primary revolving credit facility and is payable on the principle and accrued and unpaid interest.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

19. ISSUED SHARE CAPITAL AND RESERVES

(i) Issued share Capital

	2019 £'000	2018 £'000
Allotted, called up and fully paid		
1,800,000 (2018 – 1,800,000) 'A' Ordinary shares of £1 each	1,800	1,800
200,000 (2018 – 200,000) 'B' Ordinary shares of £1 each	200	200
	2,000	2,000

Under the Company's Articles of Association, each 'A' ordinary share and each 'B' ordinary share carries one vote.

Senior Engineering Investments Limited holds 1,800,000 ordinary 'A' shares together with the 200,000 ordinary 'B' shares.

(ii) Profit and Loss Reserve

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

(iii) Hedging and Translation Reserve

2019	Hedging Reserve £'000	Translation Reserve £'000	Total £'000
Balance at 1 January	6,711	2,073	8,784
Gains on cash flow hedges (net of tax)	(4,708)	-	(4,708)
Exchange differences on translation of foreign operation	-	76	76
Balance at 31 December	2,003	2,149	4,152

2018	Hedging Reserve £'000	Translation Reserve £'000	Total £'000
Balance at 1 January	2,101	1,730	3,831
Losses on cash flow hedges (net of tax)	4,610	-	4,610
Exchange differences on translation of foreign operation	-	343	343
Balance at 31 December	6,711	2,073	8,784

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss. The translation reserve includes accumulated gains and losses on the translation of assets, liabilities and results of the overseas operation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

20. Share based payments

The Company's Directors and senior managers, when deemed appropriate, are issued share options from the Senior plc share based payment plans. Details of these plans are shown below.

(i) 2005 long-Term Incentive Plan

Shares awarded under the 2005 Long-Term Incentive Plan have attaching performance related targets over the vesting period. The awards are settled by delivering shares to the participants. Further details of this scheme can be found in the accounts of Senior plc which are publicly available on the Company's website http://www.seniorplc.com/investors/reports.aspx.

During the year nil (2018 - nil) shares were exercised and there were 187,281 (2018 – 200,276) shares outstanding at the year end.

(ii) Savings-Related Share Option Plan

Under the Savings-Related Share Option Plan for eligible employees there are no performance criteria and options are issued to all participants in accordance with the HM Revenue & Customs rules for such savings plans. Savings-Related Share Options were last issued on 8 May 2019.

During the year 12,902 (2018 – 19,893) shares were exercised and there were 1,439,469 (2018 - 1,102,327) shares outstanding at the year end.

The options outstanding at 31 December 2019 had an exercise price of 222.00p, 207.20p and 219.30p per share, and a weighted average remaining contractual life of 1.6 years. The options outstanding at 31 December 2018 had an exercise price of 207.20p, 222.00p and 335.80p per share, and a weighted average remaining contractual life of 1.4 years.

(iii) Enhanced SMIS Deferred Share Award

Shares earned under the Enhanced SMIS Deferred Share Award have a three-year deferral period and would be subject to forfeiture by a "bad leaver" over that deferral period. There are no performance criteria for this award. The awards are settled by delivering shares to the participants.

During the year 6,378 shares were granted (2018 – 3,497 granted) and there were 20,327 (2018 – 13,949) shares outstanding at the year end.

(iv) Restricted share aware

Shares earned under the Restricted Deferred Share Award have a three-year deferral period and would be subject to forfeiture by a "bad leaver" over that deferral period. There are no performance criteria for this award. The awards are settled by delivering shares to the participants.

During the year 5,000 shares were granted (2018 – 10,000 granted) and there were 15,000 (2018 – 10,000) shares outstanding at the year end.

21. PENSION COSTS

The Company participates in the Senior plc group Pension Plan, the assets and liabilities of which are held independently from the Group. This Plan was closed to future accrual at the end of 6 April 2014. Company contributions to the Plan for the year were £nil (2018 - £nil). Further details of the Group schemes and the actuarial valuations are given in the group Financial Statements of the ultimate parent company, Senior plc.

The Group operates a defined contribution pension scheme, which is open to all employees of the Company. The assets of the defined contribution pension scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company and amounted to £2,984,000 (2018 – £2,712,000). Contributions totalling £232,000 (2018 - 216,000) were payable to the fund at the year end and are included in trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

22. LEASE LIABILITIES

IFRS 16 Transition

On transition to IFRS 16 on 1 January 2019, the Group recognised right-of-use assets of £9,357,000, lease liabilities of £9,253,000, with working capital decreasing by £104,000 in total. Right-of-use assets were initially measured equal to the lease liabilities, adjusted by prepaid or accrued lease payments.

The adoption of IFRS 16 from 1 January 2019 resulted in £1,132,000 increase in depreciation, £1,243,000 reduction in lease expenses and £171,000 increase in finance costs recognised in the Profit and Loss Account during the year ended 31 December 2019; and £8,500,000 right-of-use assets and £8,461,000 lease liabilities recognised in the Company Balance Sheet at 31 December 2019.

When measuring lease liabilities, the Company discounted lease payments using incremental borrowing rates (IBR), determined on a lease portfolio basis at 1 January 2019. The weighted average of all IBRs at 1 January 2019 was 1.9%.

The table below reconciles the IAS 17 operating lease commitments disclosed in the Company Financial Statements as at 31 December 2018 to the IFRS 16 Lease liabilities recognised on 1 January 2019:

	£'000
Operating lease commitments at 31 December 2018	7,508
Recognition exemption for:	
Short term leases	(10)
Maintenance fees	(1)
Extension/Termination options reasonably certain to be exercised	2,840
Undiscounted IFRS 16 commitments at 31 December 2018	10,337
Discounting using incremental borrowing rates at 1 January 2019	(1,084)
Additional lease liabilities recognised at 1 January 2019	9,253

The following practical expedients and elections for IFRS 16 were taken on the transition date:

• the Company did not reassess whether existing contracts are, or contain, a lease and applied IFRS 16 only to existing contracts that were previously identified as leases under IAS 17;

• the Company applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and

• leases with a remaining term of less than 12 months from the transition date and low value leases are expensed on a straight-line basis to the Company Profit and Loss Account.

For the year ended 31 December 2019, expenses relating to short-term and low value leases was £10,000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

23. GUARANTEES

a) **Private placement loans**

The Company is a guarantor, jointly and severally, with certain other Group companies, of US $20m (2018 - US $20m) unsecured loan notes under an agreement dated 8 October 2008, which are due for repayment in October 2020.

The Company is a guarantor, jointly and severally, with certain other Group companies, of US $20m (2018 – US $20m) unsecured loan notes under an agreement dated 30 October 2015, which are due for repayment in October 2022.

The Company is a guarantor, jointly and severally, with certain other Group companies, of US $60m (2018 - US $60m) unsecured loan notes under an agreement dated 30 October 2015, which are due for repayment in October 2025.

The Company is a guarantor, jointly and severally, with certain other Group companies, of €28m (2018 – €28m) unsecured loan notes under an agreement dated 16 November 2016, which are due for repayment in February 2027.

The Company is a guarantor, jointly and severally, with certain other Group companies, of £27m (2018 - £27m) unsecured loan notes under an agreement dated 8 December 2017, which are due for repayment in January 2025.

The Company is a guarantor, jointly and severally, with certain other Group companies, of US $30m (2018 - $30m) unsecured loan notes under an agreement dated 13 June 2018, which are due for repayment in September 2028.

b) **Bank guarantees**

The Company is a guarantor, jointly and severally, with certain other Group companies of all indebtedness of certain US Group companies to their US clearing banker, including a committed single bank US $50m overdraft and letter of credit facility (2018 – US $50m overdraft and letter of credit facility). This facility was amended in May 2019 and matures in June 2021.

The Company is a guarantor, jointly and severally, with certain other group companies of all indebtedness of these other Group companies to the Group's UK clearing bank. The total indebtedness to the Group's UK clearing bank as at 31 December 2019 is £0.6m net overdraft (2018 - £nil).

c) **Revolving credit facility and term loan**

In February 2019, the Group refinanced its main UK revolving credit facilities of £80m (£20m that had been due to mature in March 2019 and £60m that had been due to mature in November 2021) by increasing the committed facilities to £120m and extended the maturity to February 2024. The Company is a guarantor, jointly and severally, with certain other Group companies of this newly amended and extended facility. As at 31 December 2019, £7.0m was drawn under this facility (2018 - £2.5m was drawn under the £20m facility).

24. DERIVATIVES

The foreign exchange contracts outstanding at the year end are:

	Fair value	
	2019 £'000	2018 £'000
Foreign exchange contract assets -cash flow hedge	1,646	170
Foreign exchange contract liabilities -cash flow hedge	(4,537)	(9,495)

The Company enters into forward foreign exchange contracts to hedge the exchange risk arising on its trading activities in foreign currencies. The fair values are based on market values of equivalent instruments at the balance sheet date. Gains of £5,879,000 (2018 – losses of £5,692,000) were recognised in other comprehensive income. An amount of £509,000 gain (2018 - £777,000 loss) has been transferred to the profit and loss account and is included within operating profit in respect of contracts which matured during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2019

25. ULTIMATE PARENT COMPANY

The Company's immediate parent Company is Senior Engineering Investments Limited. The Company's ultimate parent Company and controlling party, which prepares consolidated accounts incorporating the Company's results, is Senior plc, whose registered office is at 59/61 High Street, Rickmansworth, Hertfordshire WD3 1RH. The consolidated accounts of the Group are available to the public and can either be downloaded from the Senior plc website: www.seniorplc.com or obtained from the aforementioned address. Senior plc is the smallest and largest Group in which the Financial Statements of Senior UK Limited are consolidated.